Are Those Frequent-Flier Plans Ethical?
International Banking: The End of Let's Pretend
The Fight to Save Tylenol

$3.00 November 29, 1982

1 C8900-1 11/1/82

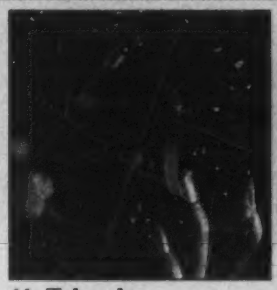
CITICORP GOES WEST

MAY68 DOD E552000SY 82 08 14
CONGRESSNL INFO SVC M034
1520 EAST-WEST HWY
STE 400 SRI ACQ
BETHESDA MD 20814

BEST AVAILABLE COPY

FORTUNE

The urban cowboy in Alan Reingold's cover painting is Citicorp Chairman Walter B. Wriston, the newest big gun among western bankers. An article about the implications of Citicorp's takeover of Fidelity Savings of San Francisco is on page 83.



44 Tylenol

52 Trade

60 Foreign Loans

Departments

4 THE EDITOR'S DESK

7 IN THE NEWS
Businessmen in the ballot box, **Nolan Bushnell** plots a video game comeback, **Revere** goes bankrupt, **Georgia-Pacific** shakes up the executive suite, **RCA**'s videodiscs show signs of life—and more

19 LETTERS TO FORTUNE
On banking for the rich, the Reagan cover, uranium processing, silver's gleam, the costs of takeovers, and other matters

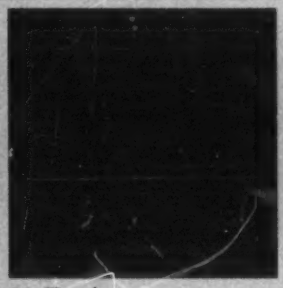
33 FORTUNE FORECAST
Confronting the '84 budget dilemma
A dramatic slowdown in labor costs

ACKNOWLEDGMENTS

4—Roger Ressmeyer. 33, 34—Chartmakers Inc. 37, 38, 39—Michael McGinn. 49—Chart by William Reduto. 54—Chart by Jim Cavanagh. 74—Illustrations by Bill Charmatz, charts by Patricia Byrne. 78—Illustration by Bill Charmatz, chart by Patricia Byrne. 124—Geoffrey Biddle. 128—Rene Burri–Magnum (top of page), Mesopotamia Productions–Bill Kelly (bottom of page).

FORTUNE (ISSN 0015-8259), November 29, 1982, Vol. 106, No. 11. Issued biweekly by Time Inc., 3435 Wilshire Blvd., Los Angeles, Cal. 90010. Second-class postage paid at Los Angeles, Cal., and at additional mailing offices. Subscriptions: U.S., U.S. possessions: one year $36; Canada: one year $46; elsewhere: one year $42 to $70. Single copy $3. Address all subscriptions and correspondence concerning them to FORTUNE, 541 North Fairbanks Court, Chicago, Ill. 60611. Principal offices: Time & Life Building, Rockefeller Center, New York, N.Y. 10020. Address correspondence concerning editorial material to FORTUNE, Time & Life Building, Rockefeller Center, New York, N.Y. 10020. J. Richard Munro, President, J. Winston Fowlkes, Treasurer, Charles B. Bear, Secretary. Authorized as second-class mail by the Post Office Department, Ottawa, Canada, and for payment of postage in cash; Mexico: Autorizado como correspondencia de segunda clase—registro DGC-Num. 051 0881, caracteristicas 226251415, por la dirección general de correos de México. Responsable en México para efectos postales: Carlos Ruz Pliego, Leibnitz 13, México D.F. 11590. Member, Audit Bureau of Circulation. POSTMASTER: Send address changes to FORTUNE, Time & Life Building, 541 North Fairbanks Court, Chicago, Ill. 60611. © 1982 Time Inc. All rights reserved. Reproduction in whole or in part without permission is prohibited. FORTUNE is a registered mark of Time Incorporated.

November 29, 1982



94 Trucks

130 Africa

37 KEEPING UP
Reflections on elections, the late news from Yale, embarrassing the EEOC, and other matters
by Daniel Seligman

143 PERSONAL INVESTING
Wall Street warms to supermarket stocks
by Ford S. Worthy

149 ON YOUR OWN TIME
Putting hunting dogs through their paces
by Marilyn Wellemeyer

159 BOOKS AND IDEAS
Management winners
by Walter Kiechel III

TROUBLE
44 The Fight to Save Tylenol *by Thomas Moore*
The inside story of Johnson & Johnson's struggle to revive its most important product.

WORLD TRADE
52 Trying to Restart the Engine *by David B. Tinnin*
An advance peek at the agenda reveals that delegates to this month's GATT conference will be facing up to some tough protectionist issues.

INTERNATIONAL BANKING
60 The End of Let's Pretend *by John W. Dizard*
Credits for the Third World are getting squeezed as banks desert—or get bounced from—the Eurodollar market.

BANKING
83 Citicorp Goes West *by Gary Hector*
The big New Yorker's well-timed leap over interstate banking barriers landed it in California. Local competitors are right to be worried.

PICTURE PORTFOLIO
94 Keep On Paintin'
Truck fleet operators are painting eye-catching murals on their trailers and turning them into movable advertising feasts.

PROMOTIONS
103 The Airlines' Flying Jackpots *by Stratford P. Sherman*
Are those valuable prizes available to frequent fliers perks—or kickbacks?

FOLLOW-UP
110 Pan Am's $200-Million Tranquilizer *by Shawn Tully*
Chairman Ed Acker is banking on selling assets and issuing bonds to get money he claims his airline doesn't need. But it does.

AIRCRAFT
114 Northern Ireland's Other American Gamble *by Andrew C. Brown*
The Lear Fan airplane came close to the De Lorean's fate. It's been saved—so far—by a Denver oilman with secret sources of money.

ELECTIONS
122 Kellogg's Battle of Battle Creek *by Gurney Breckenfeld*
The economically depressed birthplace of cornflakes got a tough ultimatum from the cereal maker. The voters went along.

RETAILING
128 Ed Gibbons's Legacy to Woolworth *by Eleanor J. Tracy*
A new management team is free to pursue better ideas because of the decisions the chairman made before he died.

AFRICA
130 A Continent in Trouble *by Hedley Donovan*
Amid plentiful bad news, the Oxford and Cambridge Society of Zimbabwe is carrying on.

PROMOTIONS

The Airlines' Flying Jackpots

Are those valuable prizes available to frequent fliers perks—or kickbacks?

by STRATFORD P. SHERMAN

Thomas Larsen, 41, engineering director of Amfac Hotels, has earned six free trips on American by flying over 250,000 miles since May 1981. His job requires weekly travel from San Francisco to hotel sites in Honolulu and Dallas. Amfac doesn't ask employees to turn over bonus tickets, and Larsen says he always gets the lowest available fares.

Photograph by Peter Menzel

Thousands of business travelers, including this writer, are finding themselves the innocent beneficiaries of what some consider a corporate rip-off. In the airlines' most recent effort to inspire brand loyalty among passengers who fly frequently on business, the carriers have launched promotional campaigns that some corporate travel managers see as blatant efforts to encourage the unscrupulous among us to defraud our employers. Others of us, honorable folk in responsible jobs, eagerly accept free plane tickets and other valuable prizes in return for our patronage, with never a thought that what we're taking might be a kickback.

These successful promotional schemes are aimed at travelers who don't pay for their own tickets. Ostensibly the airlines are rewarding their best customers, but in fact their best customers go unrewarded—the businesses that shell out some $20 billion annually on air travel. Most corporations let executives make their own travel plans, trusting them to act in the employers' best interest. The frequent-flier programs seem designed to subvert that trust. FORTUNE estimates that companies subsidizing the bulk of business travel have collectively lost out on $50 million or more in prizes and discounts.

Calling the cops won't solve the problem: these cleverly structured promotions are entirely legal. Though the programs differ in details, all operate on similar principles. Once a person signs up with an airline, the miles he travels on it become points counting toward a prize. Often he can also score "miles" by renting from Avis or sleeping with Hilton. Hertz recently started a Frequent Renter program under which a day's car rental earns points toward free tickets on American—and can also count as 1,000 miles in Eastern's program.

When a traveler has logged enough miles, he earns a prize ranging from a discount on a ticket to free air fare to Hawaii or Europe for two plus hotel room and rental car—or even more (see table, next page). Airlines award small prizes at

Research associate: Tom Post

WHAT THE FREQUENT TRAVELER CAN GET

THE TRAVEL GAME

PROGRAM	STARTED	MEMBERS	TOP PRIZE	TRAVEL REQUIRED	TIE-INS
AMERICAN AAdvantage	May 1981	800,000*	Two 1st-class round-trip tickets on American, almost anywhere; car and hotel discounts	75,000 miles	Hertz, Hyatt, Holland America Cruises, British Airways
CONTINENTAL TravelBank	Oct. 1982	N.A.	Two 1st-class round-trip tickets on Continental to Hawaii, Australia, or New Zealand; car and hotel	125,000 miles	National Car, Hilton, New York Air, 14 commuter airlines
DELTA Frequent Flyer	Sept. 1981	350,000	Two 1st-class round-trip tickets on Delta, anywhere in the U.S. or the Caribbean; car, hotel discount	90 flight segments (between Delta stops)	Alamo Rent A Car, Avis, Marriott, 35 commuter airlines
EASTERN Frequent Traveler Bonus	Aug. 1981	400,000	Two 1st-class round-trip tickets on Eastern, anywhere but Central and South America and Canada; car	90,000 miles	Hertz, General Rent-a-Car
NORTHWEST ORIENT Free Flight II	July 1982	200,000*	One 1st-class round-trip ticket on Northwest, anywhere abroad but Canada	40 flight segments costing at least $100 each	None
PAN AM WorldPass	July 1982	300,000*	Thirty days of unlimited 1st-class travel for two on Pan Am, anywhere	$25 membership fee plus 175,000 miles	Sheraton
REPUBLIC Frequent Flyer	Aug. 1981	75,000	Two "business coach" round-trip tickets on Republic, anywhere in the U.S.	Six flights to join program plus 15 flight segments	None
TWA Frequent Flight Bonus	June 1981	600,000*	Two 1st-class round-trip tickets anywhere on TWA, including Europe; car and hotel discounts	95,000 miles	Hilton International, Marriott, Avis
UNITED Mileage Plus	May 1981	700,000*	Two 1st-class round-trip tickets anywhere on United, including Hawaii	75,000 miles	Avis, Westin
WESTERN Travel Pass II	Nov. 1982	N.A.	Four 1st-class round-trip tickets anywhere on Western, including Hawaii, Mexico, and Alaska; car	150,000 miles	Avis

*Fortune estimate

Each airline sets its own rules for the travel game, and no two are alike. The passenger who flies 75,000 miles on American can travel free to Hawaii or 80 other places—but not to Rio de Janeiro or a few Caribbean spots. The traveler must accumulate his points within 12 months. The United passenger can win tickets to anywhere United flies and take all the time he needs to score his 75,000 miles. Once a winner steps off a sponsoring airline's plane, he can sometimes get special breaks on rental cars, hotel rooms, and even ocean cruises.

around 12,000 miles, big ones at 50,000 miles or more. Lots of fine print spells out time limits and other restrictions.

By playing the game cannily the traveler can improve his chances for a big prize. Since a player only penalizes himself by spreading his business around, it's important to sign up with a carrier that both flies to the places he visits and offers generous rules. From New York, for example, American and United go to many of the same U.S. cities, but United's program makes it easier to win by giving members more time to accumulate miles. The passenger who decides to travel United whenever possible can still sign up with American and other airlines.

Most people who play the travel game with their employers' money aren't bent on doing anything wrong. And businessmen who travel 50,000 miles or so in one year often feel they deserve a reward. Thunders a midwestern banker who took his girl friend to Hawaii courtesy of American last spring: "By God, if you fly 50,000 miles on one airline, you ought to have a vacation."

The real high-mileage players, perhaps

continued

"If companies forced people to turn in their prizes, we'd try to curtail the program."

10% of any frequent-flier plan's membership, rarely settle for such lesser prizes as discounts on tickets. Gunning for that big win—an expenses-paid vacation—many entrants willingly accept inconveniences they'd never put up with otherwise. "Very often," says one traveler who is already planning his family's second bonus vacation, "I'll wait three or four hours for the American flight."

It's when companies are suckered into paying needlessly high fares that the airlines' promotional programs can cost them the most. Says Robert Green, head of travel at Ralston Purina, "There are a number of people who specify an airline, even at twice the cost, just to accumulate mileage." A trip from New York to Chicago can cost $35 on Ozark and $244 on Eastern—but a member of Eastern's program might well prefer the $244 flight. Surprisingly, a new American Express survey suggests that many companies are not taking advantage of the computer systems that could control this expense. These systems are available to even the smallest companies through travel agents.

Besides tempting workers to squander time waiting for planes and money on high-cost flights, the frequent-flier programs could lead the larcenous few to spend company money flying for mileage alone. A round trip from New York to Los Angeles by way of Dallas adds only 296 air miles, but can push the cost from under $350 to more than $800.

How to steal passengers

The current wave of airborne giveaways was originated by American Airlines in May 1981 for reasons that sound innocent indeed. "The question we asked ourselves," remembers Thomas G. Plaskett, senior vice president for marketing, "was how to build brand loyalty when we're selling a commodity." Loyalty is crucial at a time of flat ticket sales and heavy discounting, when the only way for an airline to grow is by stealing passengers from the competition.

Another question American asked itself was how to steal passengers without breaking the bank. The airline figures that it gave up revenues totaling $50 million in 1979 to match a United promotion that awarded each passenger a coupon good for a 50% discount on a future flight. Though Plaskett says American would have lost $6 million more if it *hadn't* adopted the coupons, it was the sort of disaster he and his cohorts didn't want to repeat.

The frequent-flier program American's planners devised addresses the cost problem by focusing on a small and carefully targeted market segment, the people who fly at least 12,000 miles a year. There are only a million such people in the U.S., yet they produce a disproportionately large amount of domestic airline revenue—perhaps 65%.

American knows full well that its competitors will match any discounts it offers corporate clients, and the last thing it wants is a fare war in business travel, its biggest and most profitable market. Far better to single out the frequent fliers, especially since few of them pay for their own tickets except on infrequent personal trips. These travelers have proved willing to sell their loyalty for what must seem a pittance to American's marketing team. A free ticket to Hawaii and back, worth nearly nothing to an airline glutted with empty seats, is enough to transform a fickle flier into an airline devotee.

That's where the marketers may have overstepped the bounds of ethics. Unlike the free drinks and courteous smiles offered as inducements in the past, plane tickets are negotiable instruments of substantial value. One enterprising investment banker in New York traded his frequent-flier trip to Hawaii to his dentist in return for new bridgework, and plenty of prizewinners have sold their tickets to other individuals for cash. According to Alan E. Gross, whose Maryland firm, Agco, brings together buyers and sellers of bonus tickets, "Many of our customers tell us the last thing they want is more flying."

Once committed to the notion of frequent-flier programs, American and its competitors had to design them to make it hard for corporations to benefit. After all, if brand loyalty is to be created, the traveler must be the one to enjoy the reward. The airlines know from painful experience that once an alert corporate travel manager gets his mitts on a freebie—as many did on the half-fare coupons—he'll use it to maximize his company's savings. "Obviously we wanted the traveler to get the award," says Brian J. Kennedy, TWA vice president for advertising and sales. "If companies forced people to turn in their prizes, we'd try to curtail the program."

No companies need apply

By design, therefore, the programs have become private clubs from which companies are explicitly excluded. Only individuals may be members, and they often have their mileage statements sent to their home addresses. A person who has earned a free ticket must formally request it, at which time some airlines let him transfer rights to the ticket—but only to another individual. The carrier then sends a nontransferable coupon good for a ticket.

All that rigmarole is evidently meant to impose prohibitive costs on companies that try to recapture the prizes their employees win. The amounts involved are significant. Companies that do seize the prizes can expect roughly a 5% rebate on their winners' fares. But policing the travel game looks more expensive to some companies than it is worth. "I'd have to hire five people just to keep track," says the manager of one FORTUNE 500 company's $20-million travel budget. Since only part of that budget is spent by frequent fliers, she doesn't think the outlay would be worth it. Moreover, travel managers guess that only half of most companies' frequent fliers participate in any program—and not all fly enough to win. Those who do win presumably wouldn't be pleased to have their employers confiscate what the winners regard as hard-earned perks.

So most corporations let employees hang on to the prizes they win. A spokesman for Du Pont explains why his company has not tried to move in on its frequent fliers: "It's not our style to set up a policy we can't administer fairly." Hardly

continued

any businesses actually monitor employee mileage. A few, including Chrysler Corp., plan to demand that employees hand over their prizes even in the absence of a policing effort. Admits the travel chief of a big New York advertising agency that's trying the same bluff, "I'm assuming I'm getting cooperation, but whether or not I am, I can't determine."

Among the airlines the big winners on frequent-flier programs are American, United, and possibly TWA. They signed members up early and offer the broadest route systems. It's no small feat, though, to figure out just what they've gained. American has the clout to shave its costs by enforcing a 12-month limit on mileage accrual. Its program has enrolled some 800,000 members, of whom perhaps 75,000 are terrifically valuable clients, each flying some 30,000 miles or more a year. But United and TWA both have burgeoning programs of their own. TWA attracts members by offering free tickets to European cities, such as Rome or Paris, that are especially popular destinations for vacationers.

The three big winners all claim a "significant" net increase in revenues from their programs. At TWA some of the increase is thanks to bonus trippers who take paying companions along. American (1981 sales: $4.1 billion) says it reaps as much as $100 million of extra revenues annually. But that's gross, not net. American concedes that some of its former regular passengers have defected to competitors' programs, and prizewinners sometimes displace potential paying customers or take free trips for which they'd otherwise have paid.

Still, American's "share gap"—the number of percentage points by which its actual market share differs from its share of industry capacity—has risen from 0.6 point in 1980 to 1.2 points this year. Each tenth of a point represents $5.4 million in sales. TWA and United also report increased market shares

Two miles for one

One element of the plans is helping most of the major carriers. While keeping track of all that mileage, they are also stuffing their computers with extremely valuable data about the flying habits of customers, information they use to stuff special offers into the mailboxes of the ones most likely to respond. American quickly built a clientele for 11 new daily flights from Dallas/Fort Worth last year by advising program members who had recently flown there that they could count each mile flown on these routes as two.

Some of the smaller airlines, including Western, have lost business since the frequent-flier war started. In an eye-catching effort to keep up, Continental is advertising a "Fly Now, Pay Never" program that lets members take bonus flights anywhere the airline goes in the continental U.S. and Mexico before they've been earned. Passengers have a year to reduce or eliminate the resulting debt by racking up miles in Continental's program. If after a year the travelers still owe something on their tickets, they can pay it back in installments. Those who take a free flight without stepping aboard another Continental plane will have enjoyed a year's interest-free loan before the bill falls due.

The appearance of a lot more paying passengers would quickly kill the frequent-flier gimmick, since even the warmest-hearted airline would rather sell seats than give them away. But with airline load factors averaging 60% of capacity and corporate travel managers reluctant to track down the prizes they have paid for, the getting is still good.

THE WORLD BANK
CHAMBER OF COMMERCE

THE WORLD BANK chamber of commerce presents the first . . .
INTERNATIONAL EXECUTIVE FINANCIAL SOURCE REFERENCE SHEET

THE WORLD BANK chamber of commerce has compiled an international executive loan availability sheet. Each source listed has given their approval to participate in the INTERNATIONAL EXECUTIVE FINANCIAL SOURCE REFERENCE SHEET. Some of the sources are individual principals which are hardly known and some are financial institutions. This is the first time that we have made this available.

These sources have indicated that they will loan money for viable projects, business ventures, purchase and investment in real estate, development of farm land, mining securities and other sound business projects. The terms and conditions vary according to lender or investor (buyer). This International Executive Financial Source Reference Sheet is made available to you under the auspices of THE WORLD BANK chamber of commerce for the sum of $250.00 (Two Hundred and Fifty Dollars (U.S.)).

Please send _____ copies of the first INTERNATIONAL EXECUTIVE FINANCIAL SOURCE REFERENCE SHEET at the cost of $250.00 (U.S. Dollars). I understand that the names and addresses of sources are all 100% guaranteed; if for any reason you find any address or name to be incorrect, THE WORLD BANK chamber of commerce will refund that portion of your payment.

☐ Check for $_____ enclosed. COD/UPS (in U.S. only).
Make checks payable to The World Bank Chamber of Commerce.
Credit card and C.O.D. orders, please add $10 expenses per order.
☐ American Express ☐ MasterCard ☐ Visa ☐ Carte Blanche
☐ Diners Club Account No. _____ Expiration _____
☐ International Bank Transfer
Name and Title _____
Company Name _____
Address _____
City _____
State _____ Zip _____ (or Postal Code), Country _____
Signature _____

Call TOLL FREE (in the continental United States) 800-854-2003, ext. 872 – (24 hr.)
Call TOLL FREE (in California) 800-522-1500, ext. 872 – (24 hr.)
Call TOLL FREE (in Alaska and Hawaii) 800-854-2622, ext. 872 – (24 hr.)

OUR OFFICAL MAILING ADDRESS IS:
THE WORLD BANK chamber of commerce, 9903 Santa Monica Boulevard, Division 134, Beverly Hills, California 90212 U.S.A.

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Cover 1, p.2-3, 82-87.